

**THE ALABAMA PREPAID AFFORDABLE COLLEGE TUITION PROGRAM  
MEETING OF THE BOARD OF DIRECTORS  
February 19, 2014**

**MINUTES**

**Present:**

Treasurer Young Boozer, Chair  
Senator Roger Bedford  
Dr. Greg Fitch  
Representative Craig Ford  
Ms. Karen Gandy  
Mr. Marc Green for Dr. David Bronner  
General Paul Hankins  
Ms. Patti Lambert  
Mr. Jimmy Stubbs  
Mr. Mark Sullivan  
Ms. Gwen Webb

**Absent:**

Dr. Mark Heinrich  
Dr. Richard Huckaby  
Dr. William Meehan  
Mr. Bill Newton

**Others present include:**

Ms. Daria Story, Assistant Treasurer  
Mr. Chad Wright, PACT Director  
Mr. Barry Bryant, Dahab Associates

**Agenda Item 1.**

Pursuant to written and public notice, the quarterly meeting of the Board of Directors of the PACT Program was held in the Board Room of the RSA Headquarters on February 19, 2014. The meeting was called to order by Chair Young Boozer at 1:00 p.m. Roll was taken with a quorum present.

**Agenda Item 2.**

Chair Boozer presented the minutes of the November 20, 2013 board meeting. A motion for approval of the minutes as presented was made by General Hankins, seconded by Ms. Webb, with unanimous approval.

**Agenda Item 3A.**

Chair Boozer asked Mr. Chad Wright for a program report. Mr. Wright provided information on program activities, cancellations, trust fund assets, and the budget. He stated that approximately 14,000 1099Q forms had been sent out to recipients as required. He reported that over \$35 million had been paid to various institutions for the fall 2013 term on behalf of over eleven thousand beneficiaries and approximately \$10 million was paid to date for the spring term. He then provided a 2 year summary of account cancellations and stated that number of cancellations in 2013 was down approximately 16% from 2012. Mr. Wright stated that the Department of Examiners of Public Accounts recently completed their legal compliance audit of the program with no findings or comments and that all board members would receive a copy of the final

report in the coming weeks. He also mentioned that the financial audit of the program by Jackson-Thornton was completed in January with no findings or comments.

### **Agenda Item 3B.**

Chair Boozer asked Mr. Barry Bryant to provide the quarterly investment report. He provided a brief overview of the economy in general and stated that the 4<sup>th</sup> quarter began with the shutdown of the federal government. In spite of that, he said, the economy was generally positive despite a sluggish start. He stated that GNP increased at a rate of 3.2% while unemployment fell to 6.7%. Mr. Bryant stated that domestic equities surged during the quarter, with Large Cap Growth posting the strongest performance and Small Cap Growth posting the weakest. He provided a summary of portfolio and investment manager performance and stated that the total portfolio earned 0.4% for the quarter. He reminded board members that the assets continue to be transitioned from a predominantly intermediate portfolio to a predominantly short-term portfolio in accordance with the investment policy.

### **Agenda Item 3C.**

Chair Boozer provided information on the quarterly actuarial report. He stated that program assets were approximately \$217 million and he provided a summary and explanation of the assumptions and methods utilized in the report. Chair Boozer stated that there was a slight improvement in the funded ratio to 110.3% as of quarter end. He pointed out that the projections indicate that assets may be insufficient to cover total assumed program expenses in FY2018 and FY2019 with a projected deficit in FY2018 of \$2.3 million. However, he stated that the good news was that the deficit continues to trend positively and that the deficit may be eliminated in future years. Chair Boozer added that the ongoing goal was to continue to manage the program at the least possible cost in order to maximize benefits paid. Senator Bedford requested clarification on whether or not any savings realized through prudent management of expenses, renegotiation of contracts, etc would benefit the Trust Fund. Chair Boozer indicated that all funds stayed in the plan and that every dollar saved in expenses could be used to pay future benefits. General Hankins noted that the report also indicated that there would eventually be surplus funds in the future and asked whether or not those surplus funds, if available, would be used to increase future benefit payouts. Chair Boozer stated that the settlement agreement anticipates that those monies would be used to pay benefits. Ms. Lambert asked how that decision would be made. Chair Boozer indicated that the Board reviews the actuarial soundness of the program quarterly and if surplus funds were available, the Board would determine how much the payouts should be increased and when, or if incremental increases should be made over time. Mr. Sullivan asked if refunds would be made to beneficiaries that had already gone through the program. Chair Boozer indicated that the settlement agreement provides for an increase in future benefit payments.

### **Agenda Item 3D.**

Chair Boozer called on Ms. Diane Steinhilber of Jackson-Thornton to present the annual audit report for the 2013 fiscal year. Ms. Steinhilber provided a summary of the independent auditor's report and schedules and highlighted various sections of the report. She stated that the firm utilized interactive data extraction and analysis software to enable them to perform a comprehensive analysis of the transactions underlying the numbers in the financial statements. She stated that, in addition to their analysis of securities transactions, the firm utilized an independent 3<sup>rd</sup> party company for

verification of securities valuations. Ms. Steinhilber then provided a summary of the financial statements including assets, liabilities, additions, deductions and change in fiduciary net position. She stated that the firm does not render an opinion on the internal controls of the program but added that there were no noted deficiencies or areas of non-compliance regarding internal controls during the audit period.

#### **Agenda Item 4A.**

Chair Boozer called on Mr. Chad Wright to present information regarding a resolution on program administrative fund reserves. Mr. Wright explained that, according to the statute, there are currently two funds administered by the program. The Trust Fund is utilized for payment of tuition invoices on behalf of program beneficiaries. The Administrative Fund may receive fees paid into the program or gross earnings on Trust Fund principal in order to pay the administrative expenses of the program. He stated that, in the past, funds have been transferred from the Trust Fund to the Administrative Fund annually as needed in order to cover program expenses. However, as the principal in the Trust Fund is depleted in future years, there would be no remaining funds for transfer to the Administrative Fund to cover the administrative costs. He explained that the proposed resolution would authorize the establishment of a reserve account within the Trust Fund of \$13 million to pay future administrative costs. He provided information on actual expenses for the 2013 fiscal year and estimates of annual expenses for future years. Chair Boozer noted that the transaction was strictly for accounting purposes and was not a cash transaction. He added that actual expenses were expected to be less than \$13 million, but that the allocation was just to ensure that there was an adequate amount to cover future expenses. Any remaining funds would continue to be used for payment of tuition benefits. Dr. Fitch asked whether or not the language in the resolution allowed for any unexpended funds to be returned to the Trust Fund after all expenses were paid. Chair Boozer stated that the reserve account is created within the Trust Fund so those funds remaining would be used for benefit payments. General Hankins added that the monies allocated for administrative expenses were only being transferred from the reserve created within the Trust Fund as needed, so any remaining funds in the Administrative Fund after expenses were paid would be minimal. He added that the proposed action would simply preserve assets to ensure that there were adequate funds available to cover expenses for the duration of the program. Senator Bedford asked what currently happened to any budgeted funds that were not used during the year and whether or not excess funds were transferred back to the Trust Fund after expenses were paid. Mr. Wright explained that the funds would remain as a part of the Trust Fund already and asked Ms. Steinhilber for clarification. Ms. Steinhilber reiterated that the concern is that the only assets available to the Administrative Fund to cover expenses were earnings from the depleting Trust Fund. She added that, without this action, administrative expenses would eventually have to be funded from another source and the statute requires that the administrative expenses be funded by the program. She stated that the money would not actually be transferred from the Trust Fund until it was needed and that unexpended balances would remain in the Trust Fund. Dr. Fitch suggested adding language that allowed for flexibility to ensure that any unexpended funds would continue to benefit the Trust Fund for payment of tuition benefits. General Hankins commented that the action would simply create a sub-account within the Trust Fund and that unexpended funds would continue to be utilized for payment of benefits just as they always had. Representative Ford asked for clarification on why the board should address the problem now as opposed to waiting. Ms. Steinhilber stated that if the action

were delayed, there may not be enough assets remaining in the Trust Fund to cover future expenses. Senator Bedford made a motion to table the resolution until a future meeting in order to review and possibly edit language in the resolution to address board member concerns, seconded by Ms. Lambert, with unanimous approval.

**Agenda Item 5A.**

Chair Boozer stated that the PACT annual report had been submitted to the Governor, Lt. Governor and Speaker of the House as required. All board members received a copy of the annual report for their review.

**Agenda Item 5B.**

Chair Boozer called on Representative Craig Ford, the sponsor of House Bill 309 for information on the proposed legislation. Representative Ford stated that he did not have much faith that the bill would be passed. He provided a summary of the bill and stated that it was something that he continued to sponsor on a regular basis because he feels that it is a good way to fulfill PACT contracts.

There being no further business to be discussed, a motion for adjournment was made by General Hankins, seconded by Ms. Webb, with unanimous approval. The meeting adjourned at 2:05 p.m.

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Chad Wright, Recording Secretary

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Young Boozer, Chair